

Provincial Economic Forecast

Resilience in the Face of Uncertainty

Beata Caranci, SVP & Chief Economist, 416-982-8067
 Michael Dolega, Director & Senior Economist, 416-983-0500
 Dina Ignjatovic, Economist, 416-982-2555
 Rishi Sondhi, Economist, 416-983-8806

March 15, 2018

Highlights

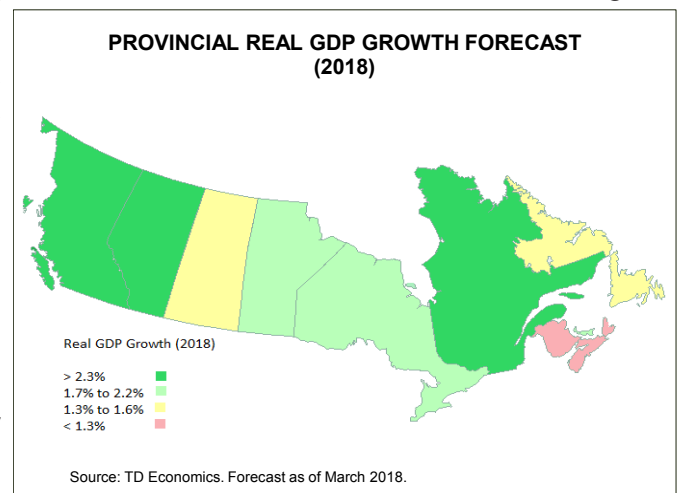
- Canada's provincial economies are coming off a good year, led by the Big Four. But, we believe that a significant and broad-based slowdown in growth is in store across the country.
- The source of the slowdown is largely structural in nature, as most provinces have little spare capacity. Other growth-dampening factors include growing U.S. protectionism, eroding competitiveness given U.S. tax cuts and softer housing markets in the face of new B20 measures and higher interest rates.
- On the flipside, continued job growth and rising wages in most provinces should underpin a decent pace of household spending. Meanwhile, capital spending budgets continue to be loosened, supporting investment.
- Resiliency in domestic spending and firmer U.S. growth should keep provincial economies in good stead.

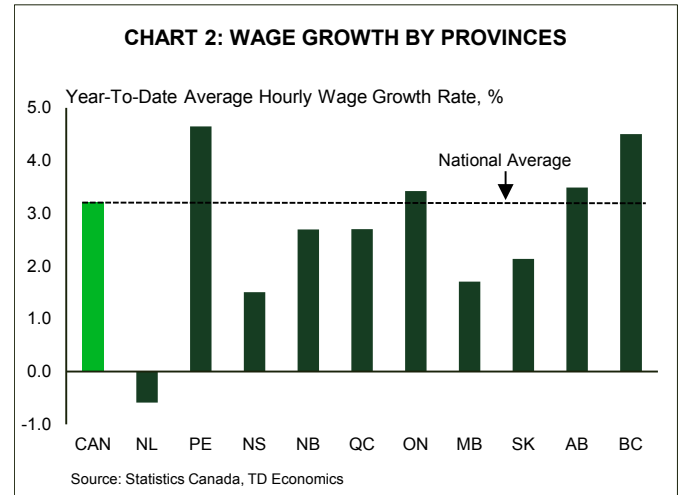
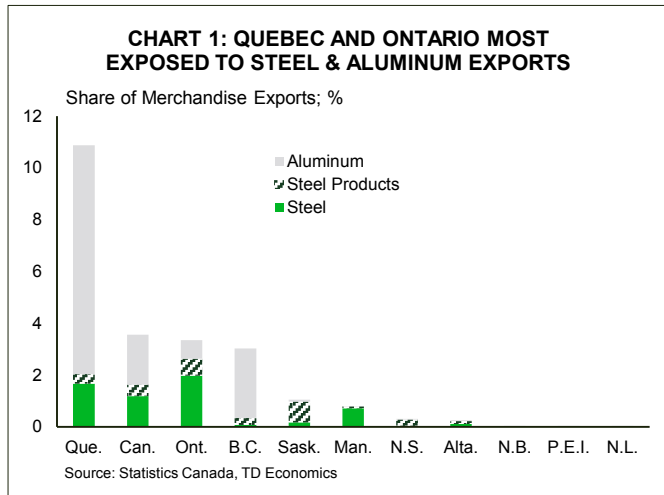
Jump to: [BC](#) | [AB](#) | [SK](#) | [MB](#) | [ON](#) | [QC](#) | [NB](#) | [NS](#) | [PE](#) | [NL](#) | [Forecast Tables](#)

Canada's provincial economies are coming off a good year led by the Big Four. Alberta was a standout performer with the 4%+ growth goosed up by a wildfire-related rebound in oil production, while Quebec and B.C. saw broad-based growth above 3%. Ontario rounded out the quartet with near 3% growth, weighed down by a cool-off in housing. Hiring engines revved up for the most part, pushing unemployment rates down to multi-decade lows in most regions.

Looking ahead, we believe that a significant and broad-based slowdown in growth is in store across the country. The source of the slowdown is structural in nature. Beyond a few notable exceptions, such as Alberta and N&L, provincial economies have little spare capacity. This leaves them with limited room to grow – barring an unanticipated productivity surge.

Three other growth-dampening factors have been topping the media headlines in recent months. The first is growing U.S. protectionism. NAFTA talks remain mired in uncertainty, and the administration appears vehemently set on thickening America's borders. Recent protectionist actions undertaken by the U.S. administration place factory-heavy Ontario, Quebec and New Brunswick most clearly in the cross hairs. However,





exposed provincial economies will be at least partially cushioned by improved U.S. near-term growth prospects and a weaker Canadian dollar. Our forecasts do not build in any further escalation in U.S. tariffs and/or retaliatory action by Canada, leaving this as a [key downside risk](#) – particularly given that steel and aluminum tariffs could be applied to Canada should NAFTA negotiations fall through. This would hit Ontario and Quebec hardest.

Second, recent U.S. tax cuts and deregulation have eroded competitiveness and raised angst of Canadian businesses. The Atlantic Provinces have the highest corporate tax burdens. In a recent [report](#), we argue that the vulnerability from changes in relative tax positions tends to be felt more over the longer run through a bleed in capital spending.

Third, housing across most major markets is almost certain to experience some negative impact from the recently-implemented B-20 guidelines coupled with gradual increases in interest rates. Regions most sensitive to these changes are the pricier markets in Ontario and B.C., with the latter market facing an additional near-term adjustment to housing-related policies introduced in B.C.'s 2018 budget.

Domestic resiliency to stand economies in good stead

Despite these headwinds, it is important not to lose sight of other forces that will continue to work in the opposite direction, supporting provincial growth to keep it on a

moderate track. Notably, continued job growth and rising wages in most provinces should underpin a decent pace of household spending. Solid household income fundamentals are also likely to limit the scope of the expected adjustment in Ontario and B.C. housing market activity this year.

On the business side, capital budgets are expected to be loosened. The story is not universally bright. Case in point, Alberta's oil patch appears to be experiencing another investment setback this year, reflecting a growing supply glut and widening price differential relative to key U.S. and global benchmarks. However, investment across most provinces, notably Ontario and Quebec, appears primed for significant expansion in 2018, led by government infrastructure spending and private outlays on machinery and equipment (M&E). Impetus for increased M&E investment typically occurs later in a cycle when labour becomes scarce and rising wage costs make investment in technology more attractive. On the government side, a number of provinces (Ontario, Quebec) face re-election during the forecast period, likely setting the stage for some fiscal pump priming.

Bottom line

There is no shortage of growth headwinds facing provincial economies over the next few years. However, ongoing resiliency in domestic spending and firmer U.S. growth should provide enough support to keep them in good stead.

BRITISH COLUMBIA

B.C.'s economy remained on fire in 2017, with growth likely surpassing the 3% mark for a fourth straight year. Although growth in the labour force benefitted from strong inflows of migrants, job market conditions continued to tighten, as evidenced by a pickup in wage gains as the year came to a close. In turn, rising household incomes, combined with wealth effects from past home price gains, underpinned consumer spending.

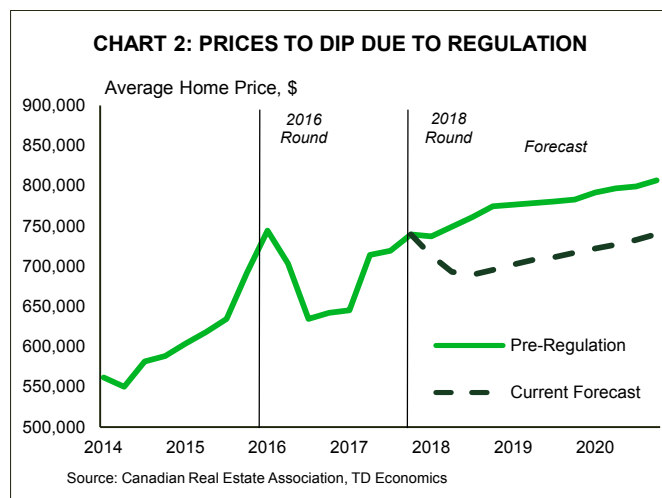
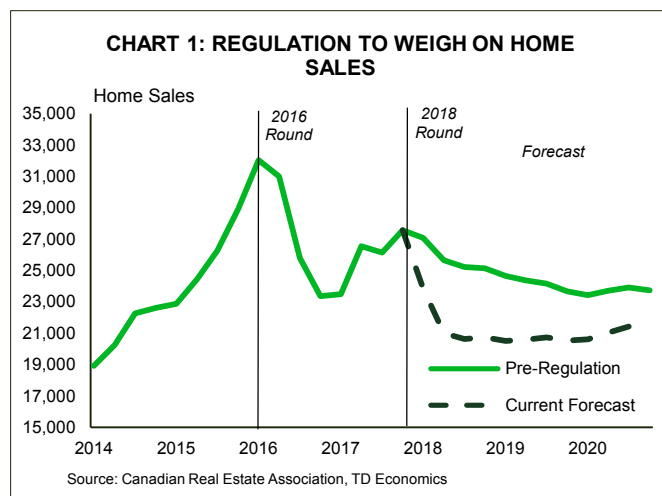
Strength in the province remained broad based, as manufacturing, wholesale trade and exports have also advanced at a solid clip. Despite the tariffs implemented on softwood lumber – which Canada is in the midst of disputing – B.C.'s lumber industry was supported by robust U.S. demand and lumber prices which shot up to record levels.

Much of this momentum is expected to carry into 2018, although construction is likely to provide some offset. Indeed, construction has been the weak spot over the past year, with non-residential building construction contracting and housing starts cooling off following a surge in activity in 2016. Going forward, more of the same is likely in store, as capital spending intentions point to a modest drop in non-residential construction and more outsized double digit declines are expected in homebuilding activity as it returns to a more sustainable level.

The province's resale housing market will remain in the spotlight, especially in light of the Homes for B.C. plan that was announced in the 2018 Budget. The plan includes a number of new or higher taxes on foreign buyers, speculators and homes valued at over \$3 million. Our [analysis](#) suggests that the new regulations will weigh on sales and prices in the near term, with peak-to-trough declines of 5-10% for resales and 5% for prices. The impact on housing activity will be more muted than in 2016 since the market is now in a more balanced position and the marginal increase in the tax is smaller. Given that these new regulations come alongside rising interest rates and updated B20 rules – both of which are likely to weigh on housing market activity – there is considerable uncertainty surrounding the outlook for housing in the province.

BRITISH COLUMBIA ECONOMIC FORECASTS			
[Annual average % change, unless otherwise noted]			
	2017*	2018	2019
Real GDP	3.3	2.4	1.9
Nominal GDP	5.5	4.0	3.8
Employment	3.7	0.9	0.5
Unemployment Rate (%)	5.1	4.8	4.9
Consumer Price Index	2.1	2.1	2.0
Retail Sales	9.6	5.0	3.5
Housing Starts (000's)	43.6	34.3	30.0
Existing Home Prices	3.4	-1.0	1.7
Home Sales	-7.5	-16.9	-4.5

* 2017 numbers are actual, except for real and nominal GDP
 Source: Statistics Canada, CMHC, CREA, forecast by TD Economics



ALBERTA

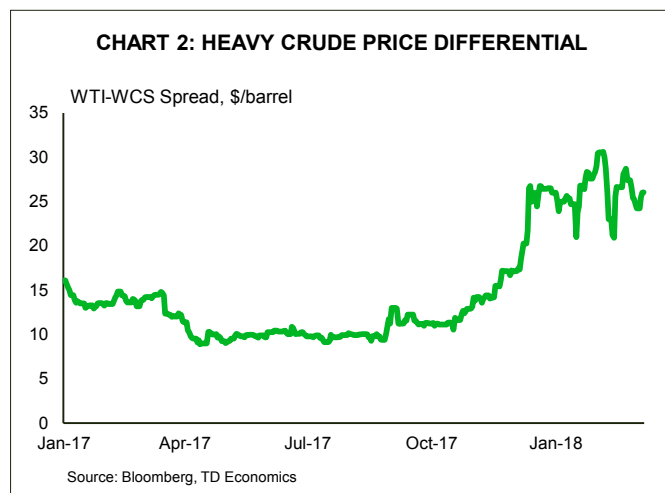
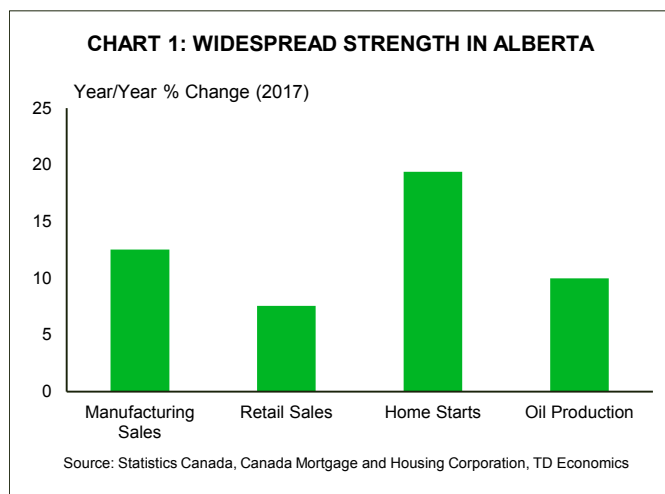
Alberta jumped to the top of the leaderboard last year, with economic growth estimated at more than 4% following significant contractions in the prior two years. Much of the gains stemmed from a bounce back in the oil sector, with output up by 10% last year. But, strength was seen elsewhere as well. Manufacturing and export activity shot up, with several industries recording double digit gains. Meanwhile, new home construction rebounded 19%, although momentum slowed early this year.

Looking ahead, this stellar pace of growth is unlikely to be repeated, as the impact of the base year effects from the wildfires fade. As such, economic growth in Alberta is expected to slow to a still solid 2% over the 2018-19 horizon – bringing the level of activity back to where it was prior to the oil price collapse. Manufacturing and continued gains in oil production alongside the increase in new capacity as projects ramp up should still remain supportive of overall growth, leading to an uptick in employment, and a gradual decline in the unemployment rate.

However, capital spending intentions suggest that non-residential investment is poised to suffer another setback on the heels of last year’s nascent recovery. Notable declines are anticipated in utilities, transportation and warehousing and educational services; but the energy sector will also continue to be a key source of weakness. Since the tail end of last year, rig counts in the province have been falling relative to year-ago levels, likely driven in part by uncertainty surrounding export pipeline capacity. Moreover, the increase in the WTI-WCS price differential has limited any benefit for heavy oil producers from the recent ascent in global oil prices. Going forward, Alberta oil producers should begin to collect higher prices as the WTI benchmark likely remains anchored around current levels and the heavy oil price discount narrows from recent unsustainable levels. Still, until pipeline capacity constraints are addressed, an influx of investment in the sector beyond current commitments is unlikely.

ALBERTA ECONOMIC FORECASTS			
[Annual average % change, unless otherwise noted]			
	2017*	2018	2019
Real GDP	4.3	2.4	2.0
Nominal GDP	7.6	4.4	4.9
Employment	1.0	1.6	1.0
Unemployment Rate (%)	7.8	6.8	6.7
Consumer Price Index	1.5	2.0	2.1
Retail Sales	7.5	4.5	4.0
Housing Starts (000's)	29.4	27.2	29.1
Existing Home Prices	0.2	-0.2	1.3
Home Sales	4.3	-0.7	3.4

* 2017 numbers are actual, except for real and nominal GDP
 Source: Statistics Canada, CMHC, CREA, forecast by TD Economics



SASKATCHEWAN

Following two years in the red, Saskatchewan's economy began to recover last year, with economic growth estimated to have come in at just under 2%. While a number of challenges remain, we expect the economy to remain on a similar moderate growth track in 2018 and 2019, fueled in part by ongoing expansion in export-oriented industries. Manufacturing exports picked up some steam last year, led by gains in the machinery, wood product and non-metallic mineral product industries. A new agri-food facility opened in Saskatoon in January, which should give food (and overall) manufacturing sales and exports a boost going forward.

Worldwide demand for grains, pulses and oilseeds has grown strongly, supporting Saskatchewan's agriculture sector. Agriculture has been a bright spot for the province, and this trend should continue so long as Mother Nature co-operates.

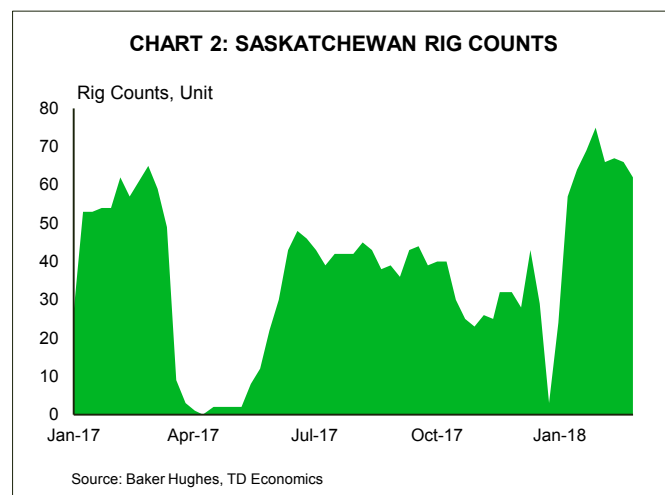
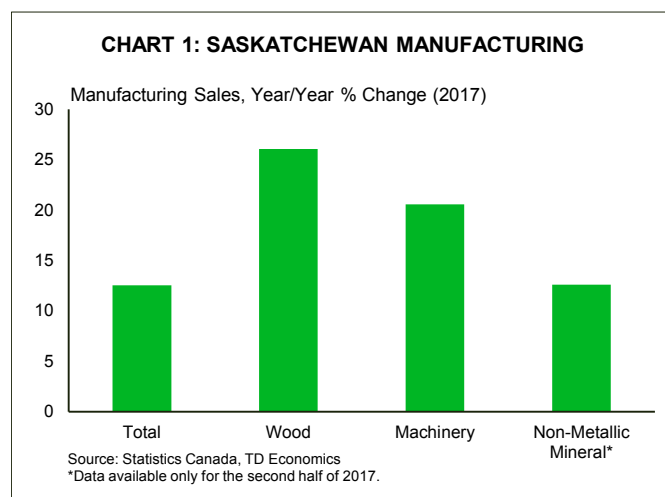
Oil production in the province rose by an estimated 6% last year and rising rig counts point to further output increases in 2018. While not all producers in the province are benefiting from the rise in global oil prices over the past year given the widening in the differential for heavy crude, the increase in rig activity and output is expected to remain a contributor to overall economic growth this year.

On the flip side, construction has represented a net hit to real GDP as a 3.5% increase in new home starts last year was not enough to offset the 15% drop in non-residential construction activity. Going forward, the outlook for construction remains soft, as homebuilding activity is expected to slump 14% this year in light of an over supplied market. However, resale activity is expected to turn positive this year following three years of declines, but will remain below pre-recession levels.

Meanwhile, sluggish employment and wage growth has led to a lackluster pace of consumer spending. Retail sales grew by 4% last year – among the weakest performance across provinces, and well below the national average of 7%. Going forward, household finances will continue to be constrained by rising interest rates and a 3.5% increase in electricity rates, which marks the third increase in two years, and a total hike of 12%.

SASKATCHEWAN ECONOMIC FORECASTS			
[Annual average % change, unless otherwise noted]			
	2017*	2018	2019
Real GDP	1.8	1.6	1.7
Nominal GDP	5.3	3.6	4.8
Employment	-0.1	0.1	0.5
Unemployment Rate (%)	6.3	5.7	5.6
Consumer Price Index	1.7	2.4	2.0
Retail Sales	4.0	3.2	4.0
Housing Starts (000's)	4.9	4.3	4.6
Existing Home Prices	-2.1	-1.2	2.8
Home Sales	-2.5	4.1	5.9

* 2017 numbers are actual, except for real and nominal GDP
Source: Statistics Canada, CMHC, CREA, forecast by TD Economics



MANITOBA

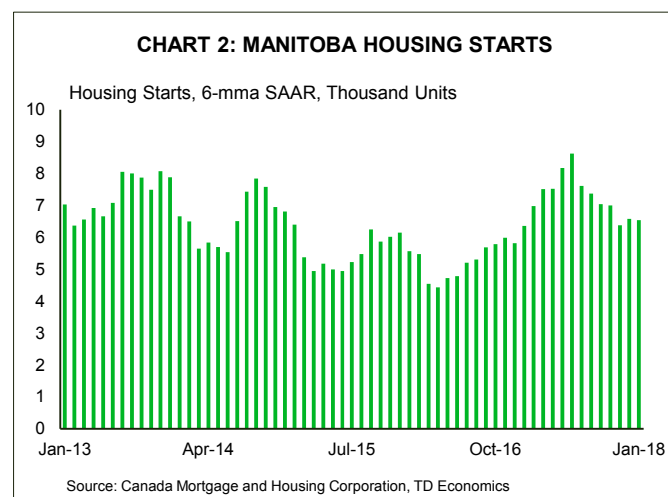
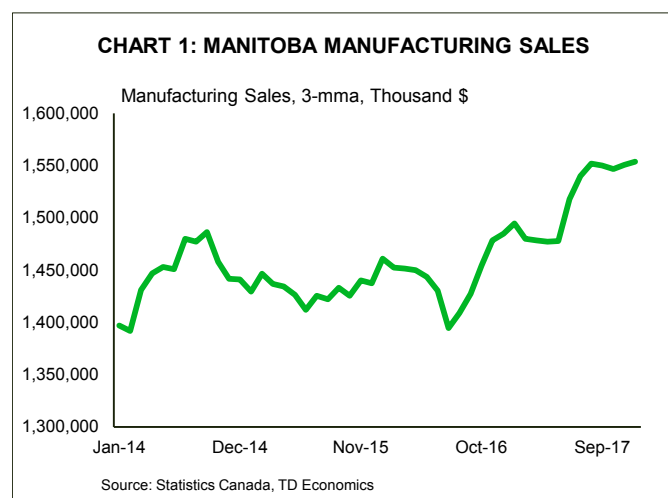
2017 was a good year for Manitoba's economy, thanks in part to expanding manufacturing activity as the sector benefited from robust U.S. demand and a recovery in its oil-producing neighbours to the west. Builders were also extremely busy, ramping up starts over 40% last year. Not to be outdone, non-residential spending was also an important source of support to growth. All told, we look for GDP growth to have clocked in at 2.4% in 2017, a workman-like performance just above the average pace of the past five years.

Peering ahead, there is a laundry list of factors that will conspire to slow growth in 2018-19. First, the winding down of one major Manitoba Hydro project and the completion of another during the next two years should weigh on capital spending. This is consistent with diminished investment intentions for the utilities sector. However, some offset will come from the construction of a new large-scale food processing plant. Second, while housing starts jumped last year, this partly reflected the efforts of builders to beat the implementation of an impact fee on new construction. With activity pulled forward, we accordingly expect some moderation in homebuilding during the next two years. Third, the province is set to experience a raft of mine closures through 2020, weighing on output in the sector. Fourth, Manitoba Hydro continues to agitate for hydro rate increases, asking for a 7.9% bump in 2018 with same-sized increases through 2024. Though a hike of that magnitude has yet to be approved by the provincial government, any potential increase would boost inflation, sap purchasing power and dampen consumer spending.

There are some positives for the outlook as well, most notably healthy U.S. demand and a further recovery in the oil-producing provinces, both of which should help support manufacturing. Agricultural production is a wildcard, although was solid in 2017. All told, we forecast growth to slow from last year's estimated 2.4% rate to 1.7% in 2018 and 1.4% by 2019.

MANITOBA ECONOMIC FORECASTS			
[Annual average % change, unless otherwise noted]			
	2017*	2018	2019
Real GDP	2.4	1.7	1.4
Nominal GDP	4.1	3.8	3.4
Employment	1.6	0.5	0.2
Unemployment Rate (%)	5.4	5.5	5.4
Consumer Price Index	1.6	2.3	2.1
Retail Sales	3.6	3.0	3.0
Housing Starts (000's)	7.8	5.9	5.8
Existing Home Prices	3.4	2.7	4.1
Home Sales	-0.8	-1.0	1.3

* 2017 numbers are actual, except for real and nominal GDP
Source: Statistics Canada, CMHC, CREA, forecast by TD Economics



ONTARIO

Ontario's economy clocked in an impressive 2.7% rate of growth in 2017, capping the best four-year run since the late-nineties. Last year's strength was frontloaded, however, with growth gearing down notably in the second half. Suffice to say that last year probably marked the high point for the economy, with GDP growth poised to slow to a still-decent rate of around 2% in 2018 and 2019.

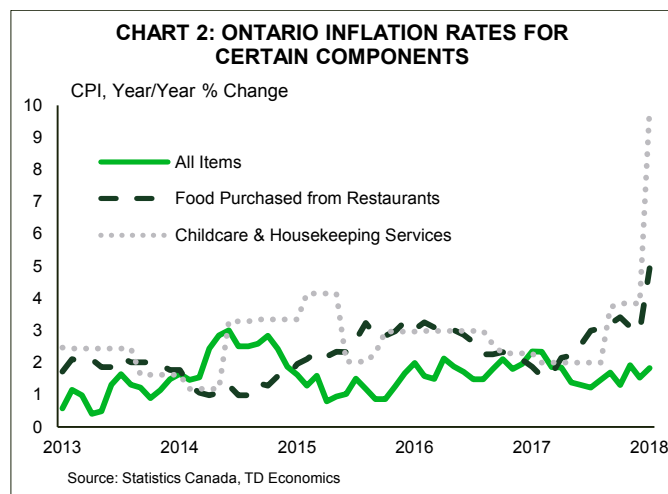
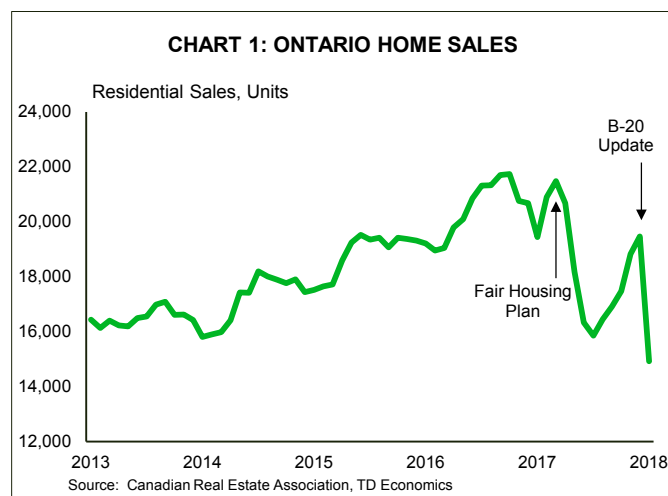
It's been a wild ride for Ontario's housing markets, with the frenzied sales pace in early 2017 giving way to a policy-driven, mid-year pull back. Activity improved in the second half, with the looming implementation of the B20 guidelines and the prospect of higher rates motivating buyers to pull-forward purchases late in the year. Existing home sales plunged 23% m/m to open 2018, partly representing payback from the earlier rush. Data from local markets signals further softness in February, suggesting that home sales were notably lower in the first part of 2018. Going forward, the new B20 guidelines and higher interest rates will continue to weigh on sales and prices, particularly in the affordability-stretched GTA market.

So far, evidence of the impact of the minimum wage hike on labour markets has been mixed. Employers shed 35k jobs in so far this year - concentrated in part-time positions - though some easing from earlier robust gains was likely. Moreover, job growth increased in some sectors most exposed to the hike and hours worked held up well. Wage growth has accelerated sharply with notable gains in some low-wage industries. The impact was more obvious in consumer price inflation, with restaurants marking up the cost of their food items in response to the policy and child care and housekeeping services inflation also accelerating in January. Our baseline view is that sharply higher minimum wages will cool employment growth and boost inflation slightly over the next few years.

On the plus side of the ledger, rising wage costs and increasingly scarce labour are expected to prompt businesses to up their spending on productivity-enhancing technologies. This is especially the case for domestically-oriented areas, as companies oriented towards export face ongoing uncertainty around the NAFTA talks.

ONTARIO ECONOMIC FORECASTS			
[Annual average % change, unless otherwise noted]			
	2017*	2018	2019
Real GDP	2.7	1.8	2.0
Nominal GDP	4.3	3.9	3.9
Employment	1.8	0.7	0.3
Unemployment Rate (%)	6.0	5.7	6.0
Consumer Price Index	1.7	2.2	2.1
Retail Sales	6.5	2.9	2.8
Housing Starts (000's)	80.1	79.0	77.0
Existing Home Prices	8.9	-5.3	2.6
Home Sales	-9.6	-21.5	5.2

* 2017 numbers are actual, except for real and nominal GDP
 Source: Statistics Canada, CMHC, CREA, forecast by TD Economics



QUÉBEC

Quebec's economy is firing on all cylinders, partly reflecting the boost to confidence from provincial fiscal improvement. Growth topped a massive 4% (annualized) in the third quarter of 2017 and looks to have remained brisk in Q4, supported by healthy consumer spending. All in, economic growth likely came in at 3.0% last year – well above the 10-year average pace of 1.4%. Looking ahead to 2018, some softening is likely given diminished economic slack and rising capacity constraints, though growth should remain relatively vigorous.

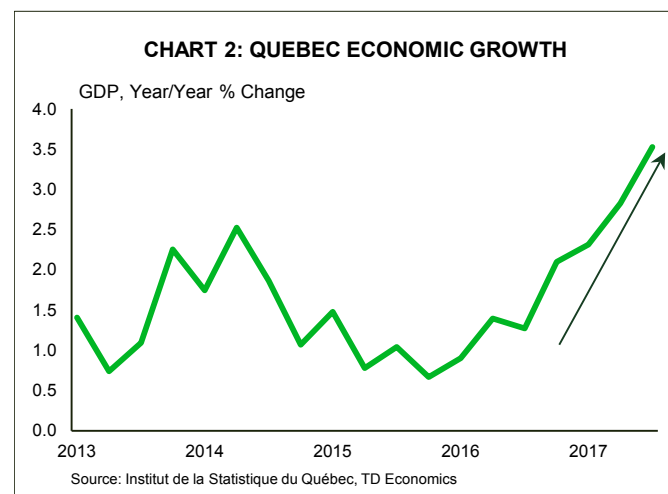
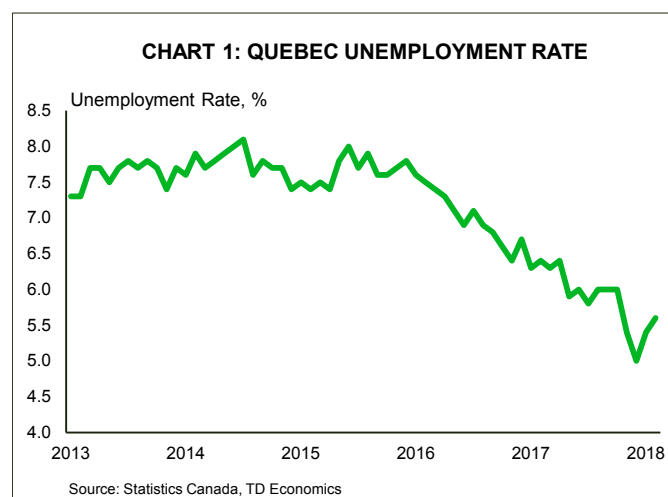
Consumers should continue spending at a healthy clip. Quebec's labour market is strong, with an impressive run of full-time job gains keeping the unemployment rate near a 40-year low and sparking faster wage growth. Additionally, recent provincial tax relief delivered to households will lift disposable income.

Despite ongoing worries about U.S. trade policy, there are reasons to be optimistic about the near-term export outlook. Solid U.S. growth and a recent drop in the Canadian dollar should be supportive for exporters. Moreover, the decision by the U.S. International Trade Commission to drop the near 300% tariff against Bombardier C-Series planes is a notable victory for the manufacturer. President Trump's recent move to temporarily exempt Canada from steel and aluminum tariffs is also positive, though some risk still exists on that front if NAFTA talks fail. A lockout at a large aluminum smelter does take some shine off the export outlook, however.

After years of weak performance, non-residential investment turned a corner in 2017, largely thanks to stronger machinery and equipment spending. Looking ahead, the winding down of the Champlain Bridge project will weigh on spending, though some offset will come as work on the Réseau électrique métropolitain project begins. Homebuilding should take a breather this year and next after 2017's strong gain amid higher interest rates and tighter mortgage regulations. Quebec's securities watchdog is exploring the idea of mandating the same mortgage lending guidelines for Quebec's credit unions as those imposed by OSFI in their B20 framework (credit unions are mostly exempt from B20 currently). However, indications are that the B20 lending guidelines have already been adapted by major credit unions in the province.

QUEBEC ECONOMIC FORECASTS			
[Annual average % change, unless otherwise noted]			
	2017*	2018	2019
Real GDP	3.0	2.4	1.7
Nominal GDP	4.5	4.1	3.7
Employment	2.2	1.7	0.9
Unemployment Rate (%)	6.1	5.5	5.5
Consumer Price Index	1.1	1.7	1.9
Retail Sales	6.0	3.7	3.2
Housing Starts (000's)	46.6	45.1	43.9
Existing Home Prices	4.4	5.3	4.1
Home Sales	5.7	-0.2	2.5

* 2017 numbers are actual, except for real and nominal GDP
Source: Statistics Canada, CMHC, CREA, forecast by TD Economics



NEW BRUNSWICK

New Brunswick's economy turned out a solid performance in 2017, with construction, manufacturing, wholesale and retail sales all supporting economic growth. While manufacturing and wholesale lost some momentum heading into this year, they remain at healthy levels nonetheless. In particular, wood product and fabricated metal manufacturing have seen significant growth over the last year, a trend that should continue going forward.

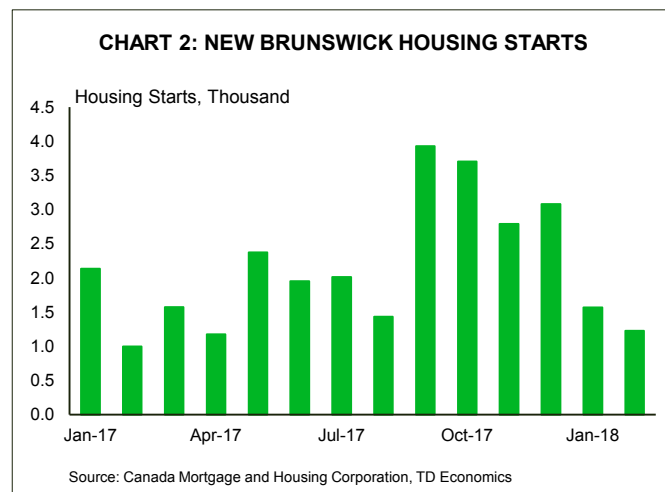
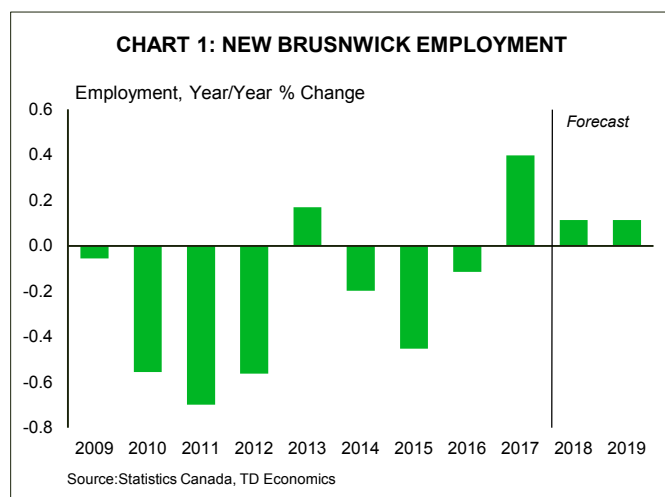
Over the year ahead, retail sales are expected to be supported by a healthy tourism performance. Within the job market, we anticipate a second straight annual gain in employment and an uptick in wage growth, which jumped to 2.7% over the first two months of this year. A rising labour force, however, is projected to push up the unemployment rate to around 8.6% in 2018

Construction will likely be a weak spot, with homebuilding activity tumbling during the first two months of the year to levels nearly 50% below the 2017 average. While we expect new home starts to come off these lows in the coming months, they are likely to fall well short of last year's unsustainable levels. As such, after last year's 35% gain contributed handsomely to economic growth, the 16% contraction in residential construction expected for 2018 means that the sector will be a net negative for growth this year. Meanwhile, existing home sales are projected to level off just below 2017 levels, while home price growth holds at around 3%. All told, the economy is forecast to grow at a moderate pace of 1% in 2018 and 2019.

The New Brunswick government released its 2018 budget in January. The pre-election budget revealed higher spending, aimed largely at youth employment, seniors and competitiveness for businesses. This increased spending will delay the return to a balanced budget to fiscal year 2021-22 – one year later than forecast in last year's budget. While mildly stimulative for the economy, net debt is also expected to rise to near 40% of GDP, leaving New Brunswick one of the most indebted provinces. This puts the province in a more vulnerable position should a downturn or any unexpected situations pop up.

NEW BRUNSWICK ECONOMIC FORECASTS			
[Annual average % change, unless otherwise noted]			
	2017*	2018	2019
Real GDP	1.4	1.0	1.0
Nominal GDP	3.9	3.1	3.3
Employment	0.4	0.1	0.1
Unemployment Rate (%)	8.1	8.6	8.6
Consumer Price Index	2.3	2.0	2.0
Retail Sales	7.1	2.7	2.4
Housing Starts (000's)	2.4	2.0	2.1
Existing Home Prices	2.9	2.9	3.3
Home Sales	6.9	-3.4	0.4

* 2017 numbers are actual, except for real and nominal GDP
 Source: Statistics Canada, CMHC, CREA, forecast by TD Economics



NOVA SCOTIA

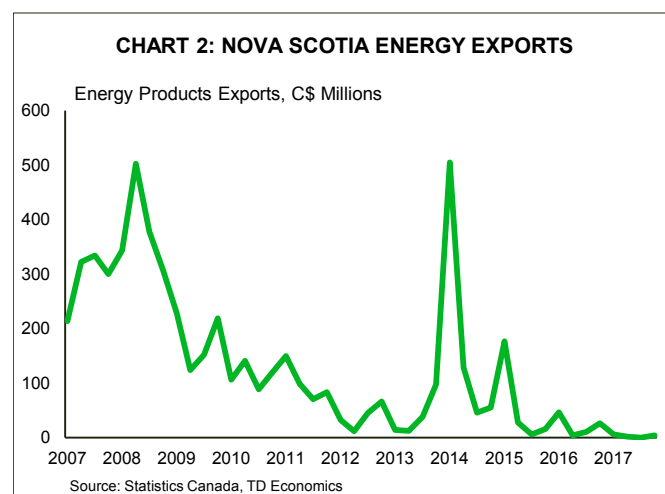
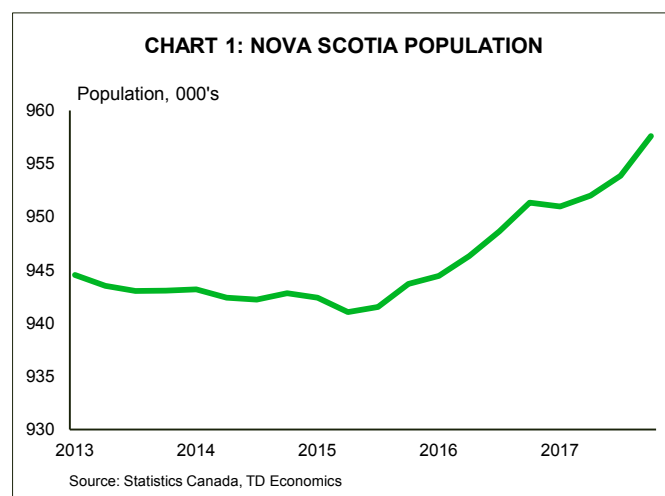
Last year, Nova Scotia's population grew at its second fastest pace since the early 1990s as the province enjoyed an influx of international and interprovincial migrants. This population spurt helped fuel home sales, consumer spending and residential construction, providing a notable lift to economic growth. With manufacturing activity enjoying a late-year pick up and retail spending holding at a strong pace, indications are that Nova Scotia's economy had decent momentum to close 2017. All in, real GDP looks to have advanced at a solid 1.6% rate last year – the fastest pace in nearly a decade. This strength also manifested in the labour market as job growth turned positive, although it was concentrated in part-time positions.

Looking ahead, favourable federal policies towards immigration should help support population growth, although some moderation from the sizzling pace seen in recent years is likely. Residential construction and household spending should ease accordingly. After supporting growth in recent years, non-residential spending is poised to fade, owing to the completion of two major projects - the Nova Centre and the Maritime Link. This view is consistent with weaker non-residential investment intentions for 2018. Natural gas output is also likely to remain a headwind to growth with two major offshore facilities set to close in coming years.

On the opposite end of the spectrum, the outlook for exporters is relatively optimistic, owing to a healthy U.S. economy and steady growth in China – Nova Scotia's second largest trading partner. Moreover, the recent decision of U.S. Commerce Department to exclude Nova Scotia from punitive softwood lumber tariffs removes an important source of uncertainty for exporters. Manufacturing activity will continue to be boosted by large-scale shipbuilding activity in Halifax while an inexpensive dollar helps keeps tourists flocking to Nova Scotia after an impressive 2017. All told, we expect growth to dip to 1.2% this year and 1.0% in 2019 – capping a three-year stretch of solid growth for the province.

NOVA SCOTIA ECONOMIC FORECASTS			
[Annual average % change, unless otherwise noted]			
	2017*	2018	2019
Real GDP	1.6	1.2	1.0
Nominal GDP	3.1	2.8	2.9
Employment	0.7	0.2	-0.2
Unemployment Rate (%)	8.4	8.2	8.2
Consumer Price Index	1.1	1.7	1.9
Retail Sales	6.3	3.4	2.9
Housing Starts (000's)	4.1	3.9	4.0
Existing Home Prices	3.3	5.5	3.5
Home Sales	4.8	-3.4	4.9

* 2017 numbers are actual, except for real and nominal GDP
Source: Statistics Canada, CMHC, CREA, forecast by TD Economics



PRINCE EDWARD ISLAND

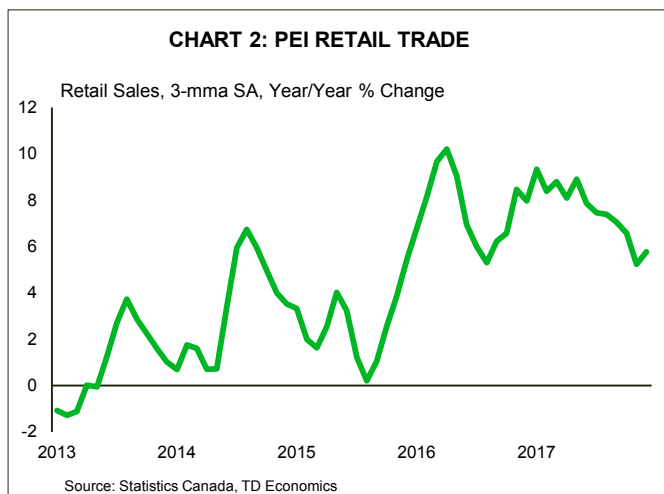
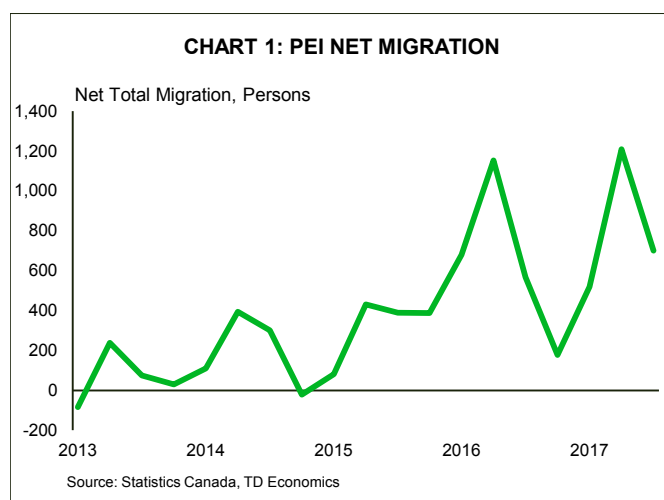
Prince Edward Island is enjoying resurgent population growth, with a massive inflow of immigrants leading to the fastest two-year population gains on record. This has spurred significant housing demand, with home prices rising at the quickest rate of any province last year. The relatively youthful composition of new immigrants has also made PEI younger compared to other Maritime provinces, supporting the working age population and giving employers a larger pool of workers to hire from.

Economic strength has extended to the labour market, with employment up a substantial 3.1% versus a year-ago in February and wages growing at a healthy 4.4% pace. Solid labour market conditions should keep consumers spending at a good clip (and help in retaining recent immigrants) going forward, though a repeat of the robust 7.4% pace observed in 2017 is unlikely. The same is expected for homebuilding activity, which is poised to ease this year and next after an unsustainable 70% gain in 2017. While home sales will likely remain elevated during the forecast period, significant gains in an environment of rising interest rates are unlikely to be achieved. Non-residential investment should also be a drag on growth, as a large-scale Interconnection Upgrade Project, which had been boosting spending, was completed last year. Such would be in-line with capital spending intentions for 2018, which point to a substantial drop in utilities investment.

Strong global demand coupled with a competitive dollar should keep export volumes growing, while the initiation of the Comprehensive Economic and Trade Agreement with the European Union will also prove supportive. The low dollar and strong global economy should also be a boon for the province's tourism sector, supporting activity after a record year in 2017. All in, we expect growth to clock in at an above-trend 2.5% pace in 2017 and hold firm at around 2% in 2018 before slowing to a more sustainable 1.3% rate in 2019.

P.E.I. ECONOMIC FORECASTS			
[Annual average % change, unless otherwise noted]			
	2017*	2018	2019
Real GDP	2.5	2.0	1.3
Nominal GDP	4.4	3.9	3.6
Employment	2.9	0.4	0.0
Unemployment Rate (%)	9.8	10.0	9.8
Consumer Price Index	1.8	2.0	2.1
Retail Sales	7.4	3.0	3.1
Housing Starts (000's)	0.9	0.8	0.9
Existing Home Prices	14.0	8.1	2.8
Home Sales	4.2	5.8	0.0

* 2017 numbers are actual, except for real and nominal GDP
 Source: Statistics Canada, CMHC, CREA, forecast by TD Economics



NEWFOUNDLAND & LABRADOR

Rising oil production has been a key source of strength for Newfoundland and Labrador's economy, helping to provide some offset to widespread weakness elsewhere. But, it unlikely kept the province out of the red in 2017, with overall economic activity estimated to have contracted by 1.3%.

Going forward, however, a double digit jump in oil production alongside the ramp up of the Hebron project should help push the economy back into growth territory this year – even as the rest of the economy continues to struggle to gain traction. Manufacturing is perhaps one exception, as shipments surged 25 % last year, and it appears as though mining could begin to make a comeback later this year with potential for two iron ore mines to come online.

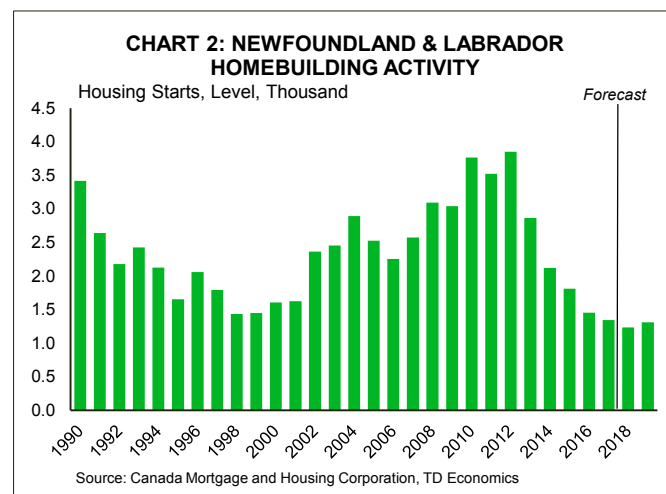
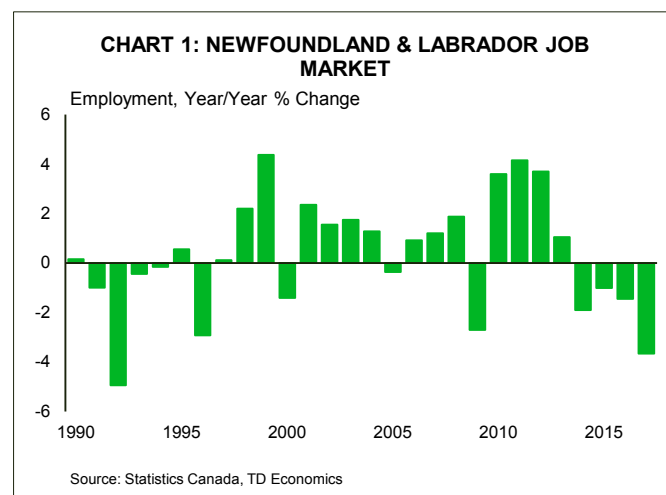
But, the rest of the economy is unlikely to see much improvement in the near term. The contraction in economic activity has prompted a number of job cuts, with overall employment falling by 3.7% last year – the largest drop since the early 1990s. The unemployment rate has been hovering in the 14-15% range, where is it likely to remain for the foreseeable future – even if employment stabilizes as expected this year. Meanwhile, wage growth has lost some steam in recent months. This soft labour market performance will prevent household spending from picking up meaningfully.

Housing market activity has been especially soft, with starts, sales and prices all trending down. As a result, Newfoundland and Labrador is one of the few regions in the country expected to remain in buyer's territory throughout the forecast horizon. Sales are forecast to level off this year and next, while prices eke out small gains. Homebuilding activity is projected to extend its decline for a sixth straight year – marking the lowest level on record back to 1990 – before edging up slightly in 2019. With ongoing declines oil and gas sector investment, and several non-residential construction projects wrapping up, construction will likely weigh on growth going forward.

All told, outside of the resource sector, Newfoundland and Labrador's economy remains quite weak, with a prolonged period of weakness in store.

NFLD & LABRADOR ECONOMIC FORECASTS			
[Annual average % change, unless otherwise noted]			
	2017*	2018	2019
Real GDP	-1.3	1.5	1.7
Nominal GDP	2.6	4.7	4.2
Employment	-3.7	0.1	0.0
Unemployment Rate (%)	14.8	14.4	14.6
Consumer Price Index	2.4	1.8	2.1
Retail Sales	2.8	2.9	3.2
Housing Starts (000's)	1.3	1.2	1.3
Existing Home Prices	-2.4	0.6	3.3
Home Sales	-4.0	1.9	-4.7

* 2017 numbers are actual, except for real and nominal GDP
Source: Statistics Canada, CMHC, CREA, forecast by TD Economics



PROVINCIAL ECONOMIC FORECASTS

REAL GROSS DOMESTIC PRODUCT (GDP)						
Annual average per cent change						
	2014	2015	2016	2017E	2018F	2019F
CANADA	2.9	1.0	1.4	3.0	2.0	1.9
N. & L.	-0.9	-1.7	1.9	-1.3	1.5	1.7
P.E.I.	0.3	1.3	2.3	2.5	2.0	1.3
N.S.	1.1	1.4	0.8	1.6	1.2	1.0
N.B.	0.1	2.4	1.2	1.4	1.0	1.0
Québec	1.8	1.0	1.4	3.0	2.4	1.7
Ontario	2.7	2.9	2.6	2.7	1.8	2.0
Manitoba	2.1	1.3	2.2	2.4	1.7	1.4
Sask.	2.1	-1.0	-0.5	1.8	1.6	1.7
Alberta	6.2	-3.7	-3.7	4.3	2.4	2.0
B.C.	3.7	3.5	3.5	3.3	2.4	1.9

E|F: Forecast by TD Economics as at March 2018.
Source: Statistics Canada / Haver Analytics

NOMINAL GROSS DOMESTIC PRODUCT (GDP)						
Annual average per cent change						
	2014	2015	2016	2017E	2018F	2019F
CANADA	4.9	0.2	2.0	5.3	4.1	4.0
N. & L.	-0.5	-11.5	2.6	2.6	4.7	4.2
P.E.I.	1.7	3.9	4.0	4.4	3.9	3.6
N.S.	2.9	2.1	2.8	3.1	2.8	2.9
N.B.	1.8	2.0	3.6	3.9	3.1	3.3
Québec	3.0	2.4	2.7	4.5	4.1	3.7
Ontario	4.4	5.0	4.3	4.3	3.9	3.9
Manitoba	3.1	3.3	2.3	4.1	3.8	3.4
Sask.	-0.4	-5.4	-4.0	5.3	3.6	4.8
Alberta	10.0	-12.0	-4.9	7.6	4.4	4.9
B.C.	5.7	4.0	4.8	5.5	4.0	3.8

E|F: Forecast by TD Economics as at March 2018.
Source: Statistics Canada / Haver Analytics

EMPLOYMENT						
Annual average per cent change						
	2014	2015	2016	2017	2018F	2019F
CANADA	0.6	0.9	0.7	1.9	1.0	0.6
N. & L.	-1.9	-1.0	-1.4	-3.7	0.1	0.0
P.E.I.	-0.5	-0.9	-2.2	2.9	0.4	0.0
N.S.	-1.1	0.1	-0.4	0.7	0.2	-0.2
N.B.	-0.2	-0.5	-0.1	0.4	0.1	0.1
Québec	-0.1	1.0	0.9	2.2	1.7	0.9
Ontario	0.8	0.7	1.1	1.8	0.7	0.3
Manitoba	0.1	1.5	-0.5	1.6	0.5	0.2
Sask.	1.0	0.6	-0.9	-0.1	0.1	0.5
Alberta	2.2	1.2	-1.6	1.0	1.6	1.0
B.C.	0.6	1.3	3.1	3.7	0.9	0.5

E|F: Forecast by TD Economics as at March 2018.
Source: Statistics Canada / Haver Analytics

UNEMPLOYMENT RATE						
Annual, per cent						
	2014	2015	2016	2017	2018F	2019F
CANADA	6.9	6.9	7.0	6.3	5.9	6.0
N. & L.	11.9	12.8	13.4	14.8	14.4	14.6
P.E.I.	10.6	10.4	10.7	9.8	10.0	9.8
N.S.	9.0	8.6	8.3	8.4	8.2	8.2
N.B.	9.9	9.8	9.5	8.1	8.6	8.6
Québec	7.7	7.6	7.1	6.1	5.5	5.5
Ontario	7.3	6.8	6.5	6.0	5.7	6.0
Manitoba	5.4	5.6	6.1	5.4	5.5	5.4
Sask.	3.8	5.0	6.3	6.3	5.7	5.6
Alberta	4.7	6.0	8.1	7.8	6.8	6.7
B.C.	6.1	6.2	6.0	5.1	4.8	4.9

E|F: Forecast by TD Economics as at March 2018.
Source: Statistics Canada / Haver Analytics

CONSUMER PRICE INDEX (CPI)						
Annual average per cent change						
	2014	2015	2016	2017	2018F	2019F
CANADA	1.9	1.1	1.4	1.6	2.2	2.1
N. & L.	1.9	0.4	2.7	2.4	1.8	2.1
P.E.I.	1.6	-0.6	1.2	1.8	2.0	2.1
N.S.	1.7	0.4	1.2	1.1	1.7	1.9
N.B.	1.5	0.5	2.2	2.3	2.0	2.0
Québec	1.4	1.1	0.7	1.1	1.7	1.9
Ontario	2.3	1.2	1.8	1.7	2.2	2.1
Manitoba	1.8	1.2	1.3	1.6	2.3	2.1
Sask.	2.4	1.6	1.1	1.7	2.4	2.0
Alberta	2.6	1.2	1.1	1.5	2.0	2.1
B.C.	1.0	1.1	1.9	2.1	2.1	2.0

E|F: Forecast by TD Economics as at March 2018.
Source: Statistics Canada / Haver Analytics

RETAIL TRADE						
Annual average per cent change						
	2014	2015	2016	2017	2018F	2019F
CANADA	5.1	2.6	5.1	6.7	3.3	3.2
N. & L.	3.6	0.6	0.2	2.8	2.9	3.2
P.E.I.	3.6	2.8	7.7	7.4	3.0	3.1
N.S.	2.7	0.2	4.6	6.3	3.4	2.9
N.B.	3.6	2.1	1.8	7.1	2.7	2.4
Québec	2.4	1.8	6.2	6.0	3.7	3.2
Ontario	5.8	5.5	7.1	6.5	2.9	2.8
Manitoba	4.4	1.6	4.2	3.6	3.0	3.0
Sask.	5.0	-2.9	2.2	4.0	3.2	4.0
Alberta	7.9	-4.0	-1.2	7.5	4.5	4.0
B.C.	6.3	6.9	7.4	9.6	5.0	3.5

E|F: Forecast by TD Economics as at March 2018.
Source: Statistics Canada / Haver Analytics

PROVINCIAL ECONOMIC FORECASTS

HOUSING STARTS						
Thousands of units						
	2014	2015	2016	2017	2018F	2019F
CANADA	189.1	193.6	197.9	220.3	203.6	198.7
N. & L.	2.3	1.8	1.6	1.4	1.2	1.3
P.E.I.	0.5	0.5	0.5	1.0	0.8	0.9
N.S.	3.1	3.9	3.7	4.0	3.9	4.0
N.B.	2.3	1.9	1.8	2.3	2.0	2.1
Québec	39.1	36.7	38.6	46.1	45.1	43.9
Ontario	58.6	69.0	74.8	80.1	79.0	77.0
Manitoba	6.2	5.6	5.3	7.6	5.9	5.8
Sask.	8.3	5.2	4.8	5.0	4.3	4.6
Alberta	40.6	37.5	24.6	29.3	27.2	29.1
B.C.	28.3	31.5	42.1	43.5	34.3	30.0

F: Forecast by TD Economics as at March 2018.
Source: CMHC / Haver Analytics

HOUSING STARTS						
Per cent change						
	2014	2015	2016	2017	2018F	2019F
CANADA	0.6	2.4	2.2	11.3	-7.5	-2.4
N. & L.	-21.3	-18.1	-15.9	-10.0	-11.5	6.0
P.E.I.	-18.5	3.7	0.0	80.0	-13.0	5.6
N.S.	-21.7	26.2	-4.2	8.5	-3.6	3.4
N.B.	-17.8	-16.1	-5.0	22.5	-13.1	5.5
Québec	3.9	-6.2	5.3	19.3	-2.1	-2.6
Ontario	-3.8	17.8	8.5	7.0	-1.4	-2.5
Manitoba	-17.6	-10.2	-4.5	43.5	-22.6	-2.2
Sask.	-0.1	-37.6	-6.0	2.4	-14.2	7.5
Alberta	12.5	-7.5	-34.5	19.4	-7.4	7.2
B.C.	4.4	11.4	33.7	3.4	-21.2	-12.6

F: Forecast by TD Economics as at March 2018.
Source: CMHC / Haver Analytics

EXISTING HOME SALES						
Thousands of units						
	2014	2015	2016	2017	2018F	2019F
CANADA	484.6	510.7	540.8	516.3	449.7	460.1
N. & L.	4.2	4.2	4.1	3.9	4.0	3.8
P.E.I.	1.4	1.7	2.1	2.1	2.3	2.3
N.S.	9.1	9.4	10.1	10.6	10.2	10.7
N.B.	6.3	6.7	7.4	7.9	7.7	7.7
Québec	70.6	74.1	78.1	82.6	82.4	84.5
Ontario	206.1	226.2	245.4	222.0	174.3	183.4
Manitoba	13.8	14.0	14.5	14.4	14.3	14.5
Sask.	13.5	12.0	11.3	11.1	11.5	12.2
Alberta	75.1	59.3	54.8	57.2	56.8	58.7
B.C.	84.1	102.5	112.2	103.8	86.3	82.4

F: Forecast by TD Economics as at March 2018.
Source: Canadian Real Estate Association

EXISTING HOME SALES						
Per cent change						
	2014	2015	2016	2017	2018F	2019F
CANADA	6.2	5.4	5.9	-4.5	-12.9	2.3
N. & L.	-3.4	2.2	-3.9	-4.0	1.9	-4.7
P.E.I.	-0.5	19.1	22.2	4.2	5.8	0.0
N.S.	-0.6	3.4	7.7	4.8	-3.4	4.9
N.B.	-0.1	6.5	11.1	6.9	-3.4	0.4
Québec	-0.8	5.0	5.4	5.7	-0.2	2.5
Ontario	4.0	9.7	8.5	-9.6	-21.5	5.2
Manitoba	0.4	1.7	3.8	-0.8	-1.0	1.3
Sask.	2.7	-10.8	-5.6	-2.5	4.1	5.9
Alberta	11.4	-21.0	-7.6	4.3	-0.7	3.4
B.C.	15.2	21.9	9.5	-7.5	-16.9	-4.5

F: Forecast by TD Economics as at March 2018.
Source: Canadian Real Estate Association

AVERAGE EXISTING HOME PRICE						
Thousands of C\$						
	2014	2015	2016	2017	2018F	2019F
CANADA	407.5	441.0	487.1	506.0	481.0	490.4
N. & L.	285.4	277.0	257.8	251.7	253.3	261.5
P.E.I.	165.8	164.0	178.9	204.0	220.5	226.6
N.S.	214.4	218.7	221.7	229.0	241.7	250.1
N.B.	161.0	159.2	161.0	165.7	170.5	176.1
Québec	268.1	271.9	280.5	292.9	308.3	320.9
Ontario	428.8	460.7	531.1	578.3	547.6	561.7
Manitoba	264.7	268.2	276.3	285.7	293.3	305.2
Sask.	303.1	301.2	299.0	292.6	289.2	297.3
Alberta	401.6	393.7	395.0	395.9	395.1	400.0
B.C.	570.5	637.2	681.3	704.6	697.8	709.7

F: Forecast by TD Economics as at March 2018.
Source: Canadian Real Estate Association

AVERAGE EXISTING HOME PRICE						
Per cent change						
	2014	2015	2016	2017	2018F	2019F
CANADA	6.8	8.2	10.4	3.9	-4.9	2.0
N. & L.	0.6	-2.9	-6.9	-2.4	0.6	3.3
P.E.I.	6.9	-1.1	9.1	14.0	8.1	2.8
N.S.	-0.2	2.0	1.4	3.3	5.5	3.5
N.B.	-0.2	-1.1	1.1	2.9	2.9	3.3
Québec	0.2	1.4	3.1	4.4	5.3	4.1
Ontario	6.8	7.4	15.3	8.9	-5.3	2.6
Manitoba	1.5	1.3	3.0	3.4	2.7	4.1
Sask.	5.4	-0.6	-0.7	-2.1	-1.2	2.8
Alberta	5.6	-2.0	0.3	0.2	-0.2	1.3
B.C.	6.1	11.7	6.9	3.4	-1.0	1.7

F: Forecast by TD Economics as at March 2018.
Source: Canadian Real Estate Association

Disclaimer

This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.